

HOUSING MARKET OUTLOOK

London CMA



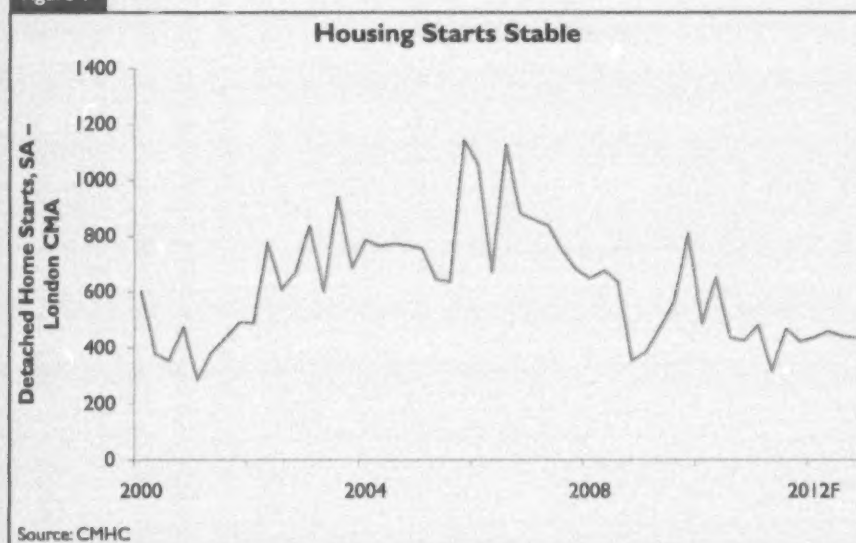
CANADA MORTGAGE AND HOUSING CORPORATION

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Market at a Glance

- Move-up buyers will be the main drivers of demand for London housing market in 2012
- Housing starts will rise next year as demand shifts to multiples
- London's employment begins turnaround in 2012

Figure 1



*The forecasts included in this document are based on information available as of October 5, 2011.

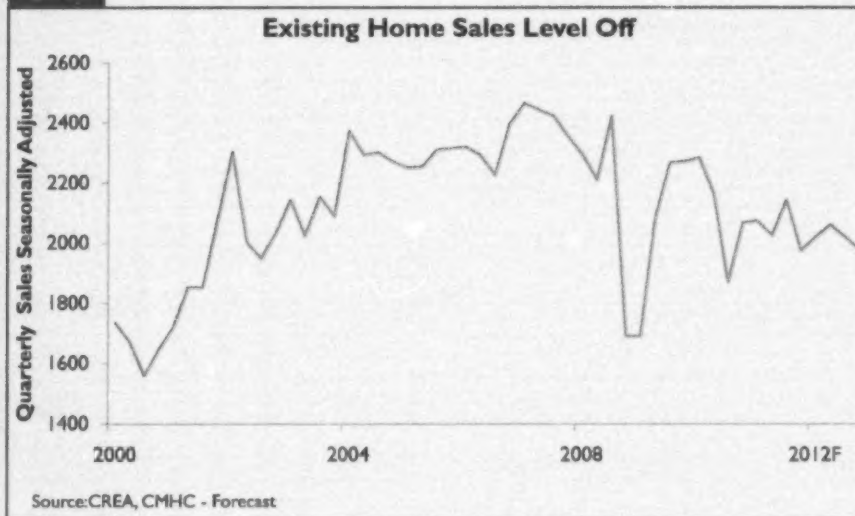
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Figure 2



Resale Homes Market

Steady As She Goes

Increased activity by move-up and move-down buyers, especially in the higher-end new condominium market, will help balance off fewer first-time buyer home purchases. The pace of sales appears to be strengthening when compared on a year over year basis. However when sales in 2011 are adjusted for seasonal and irregular factors, the trend is fairly level. Following a slight dip in demand in the second quarter earlier this year, sales will continue at a seasonally adjusted annualized rate of just over the 8,000 level for the rest of the year and into 2012. A moderate pace of job growth and uncertainty in global financial markets will temper gains in sales in 2012.

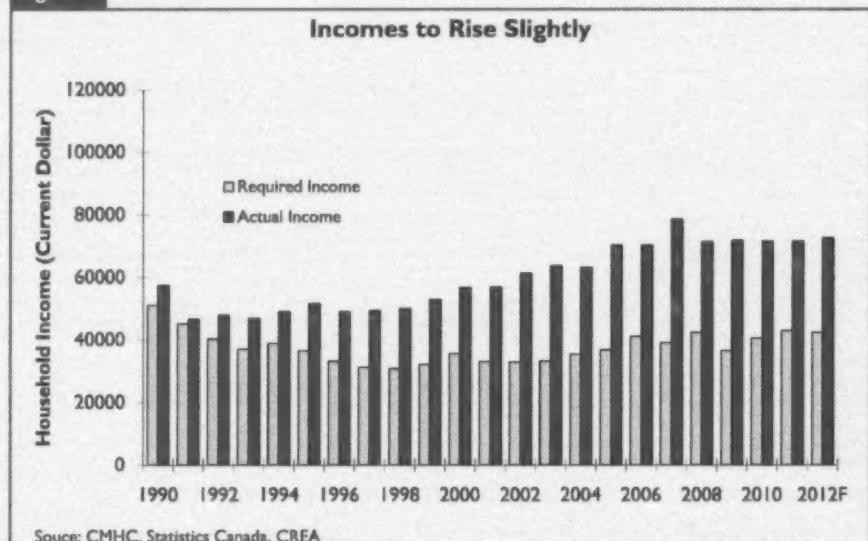
Accessibility to homeownership took a little longer for some in 2011 in London due to lack of income growth. A larger segment of potential first-time buyers took advantage of favourable market conditions in 2009 when the ratio of required income to actual income necessary to own a home dropped temporarily. First-

time buyers will return to the London market again in 2012 as income growth returns and the required income to own a home declines slightly.

An increase in the average price for various home types has encouraged homeowners to list their homes for

sale. Within the City, the average prices for bungalows and two storey homes peaked in the second quarter. During the same period, the seasonally adjusted average price jumped, in part due to the sale of new apartment condominiums downtown including London's first penthouses with price tags over one million dollars. As upward pressure on prices is no longer evident, some homeowners will be less interested in listing their homes and listings will decrease moderately in 2012. New listings will peak this year around 17,000 before slowly trending downward in 2012. As sales slow moving into 2012 along with new listings, the sales-to-new-listings ratio, a leading indicator of price growth, will remain in the range associated with a balanced market. Consequently, the overall average price will remain flat. However, certain market segments such as townhouse condominiums are expected to post above-average gains.

Figure 3



Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

New Homes Market

Move-Up Buyers Drive Market

Construction of new homes in the London CMA will decline by a fifth by the end of the year before stabilizing in 2012. Demand for new homes has been affected by two major factors. Firstly, a balanced resale market is offering buyers a selection of homes at a variety of price points, and secondly, a subdued job market which is limiting consumers' ability to make long-term, large ticket purchases.

Housing starts in the London CMA bottomed out in the second quarter of 2011 on a seasonally adjusted basis before turning up in the third quarter. Total residential construction will be slightly higher in 2012 in the London CMA as starts activity shifts towards more high density housing. Demand for low and mid-priced new homes has been mostly satisfied in the balanced resale market. This trend will continue throughout next year.

Apartment Construction To Increase

The London market has had a high level of apartment construction for a market of its size over the past few years, peaking at over 1,128 units in 2006 and bottoming out at 400 units this year. Construction will ramp up once again starting in 2012 to satisfy demand from ageing baby-boomers looking to downsize and from professionals looking to live in a redeveloping downtown core. In 2006, all apartments were built for the rental market whereas in 2011, nearly two-thirds are condominiums. Although the share of condominiums may fall next year as rental construction regains some of its past strength, condominium apartments with high-end finishes and amenities are gaining in popularity.

London's apartment rental market has absorbed over 1,500 new rental units over the last 18 months while average two bedroom rents continued to climb. However, the number of rental apartments under construction has fallen to its lowest level in ten years. In 2010 and 2011, builders

completed the initial phase of several rental developments and as economic conditions improve both provincially and locally, they will begin construction of the subsequent phases.

New Home Prices Rising

New home prices will rise to average \$355,000 in 2012 in the London CMA following a year of price stabilization. The lack of significant price growth this year was in part due to the sell-off of inventory in the lower price ranges which would be in competition to many resale homes. Among homes which had not been sold before completion, homes priced in the \$400-\$449,999 range sold faster than those with lower prices, indicating move-up buyer activity in the London market.

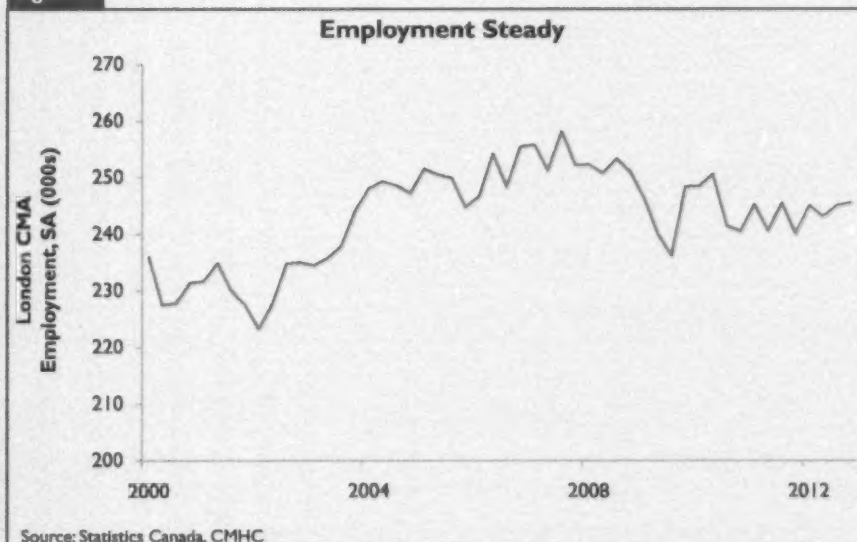
Local Economy

More Full Time Jobs

Employment levels in the London CMA will post a minor dip this year as the local economy struggles with the lingering effects of a high Canadian dollar and the fragile global economic recovery. The high exchange rate and lack of recovery south of the border have had a negative impact on manufacturing and some service sector jobs in the region. While the auto sector winds up a period of local restructuring, it is the London's finance, insurance, real estate and leasing industry as well as the professions and scientific and technical services sectors where employment will hold up better in 2012.

London's unemployment rate has risen, however, it is important to relate this to the increasing participation rate which indicates that more Londoners are looking for jobs. Once job growth catches up with the workers returning to the labour

Figure 4



force, the unemployment rate will begin to come down in 2012. Full-time employment has been expanding in 2011, offsetting a decline in part-time jobs. This is a positive sign which indicates that workers whose hours were cut when the economy slowed are now getting more work. Full-time employment is one of the key factors determining a person's ability and confidence to make a large purchase such as a home.

Net Migration

London Attracting More International Migrants

Net migration to the London CMA will increase to the 2,200 level both this year and next. A significant portion of London's new residents are international migrants attracted by the region's medical research facilities and post-secondary educational institutions. Between 2008 and 2010, 12 per cent of landed immigrants

with post-secondary education to the London area were either post-secondary teachers/professors or specialist physicians. This proportion was significantly higher in London than it was in the larger, nearby municipalities of Kitchener-Waterloo and Hamilton. London is establishing itself as an international centre of research with such ventures such as the International Water Centre of Excellence and the Fraunhofer International Composites Research Centre at the University of Western Ontario and consequently will continue to attract new residents.

Mortgage rate outlook

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty,

the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Forecast Summary London CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	8 620	8 314	8 389	8 200	-2,3	8 100	-1,2
MLS® New Listings	16 769	14 795	16 171	17 000	5,1	16 700	-1,8
MLS® Average Price (\$)	212 092	214 510	228 114	232 000	1,7	232 600	0,3
New Home Market							
Starts:							
Single-Detached	1 369	1 056	1 461	1 150	-21,3	1 100	-4,3
Multiples	1 016	1 112	618	530	-14,2	630	18,9
Semi-Detached	24	12	20	10	-50,0	20	100,0
Row/Townhouse	205	169	163	120	-26,4	160	33,3
Apartments	787	931	435	400	-8,0	450	12,5
Starts - Total	2 385	2 168	2 079	1 680	-19,2	1 730	3,0
Average Price (\$):							
Single-Detached	320 039	341 898	347 634	348 000	0,1	355 000	2,0
Median Price (\$):							
Single-Detached	295 900	307 900	320 000	322 000	0,6	325 000	0,9
New Housing Price Index (% chg.)	3,5	1,4	2,7	1,0	-	1,3	-
Rental Market							
October Vacancy Rate (%)	3,9	5,0	5,0	4,8	-0,2	4,2	-0,6
Two-bedroom Average Rent (October) (\$)	834	896	869	878	-	895	-
Economic Overview							
Mortgage Rate (1 year) (%)	6,70	4,02	3,49	3,60	-	3,56	-
Mortgage Rate (5 year) (%)	7,06	5,63	5,61	5,42	-	5,43	-
Annual Employment Level	251 600	242 800	244 900	243 100	-0,7	245 000	0,8
Employment Growth (%)	-1,1	-3,5	0,9	-0,7	-	0,8	-
Unemployment rate (%)	7,1	9,9	8,6	9,0	-	8,7	-
Net Migration	2 570	1 634	1 912	2 200	15,1	2 200	0,0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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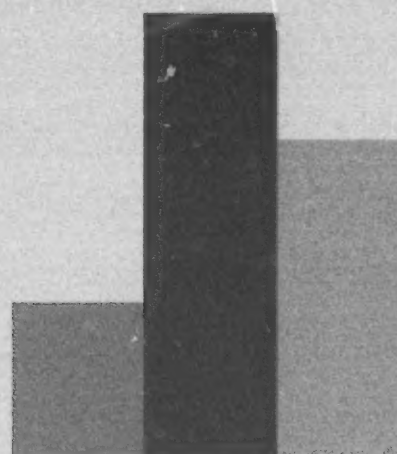
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